MARCH 23, 1987

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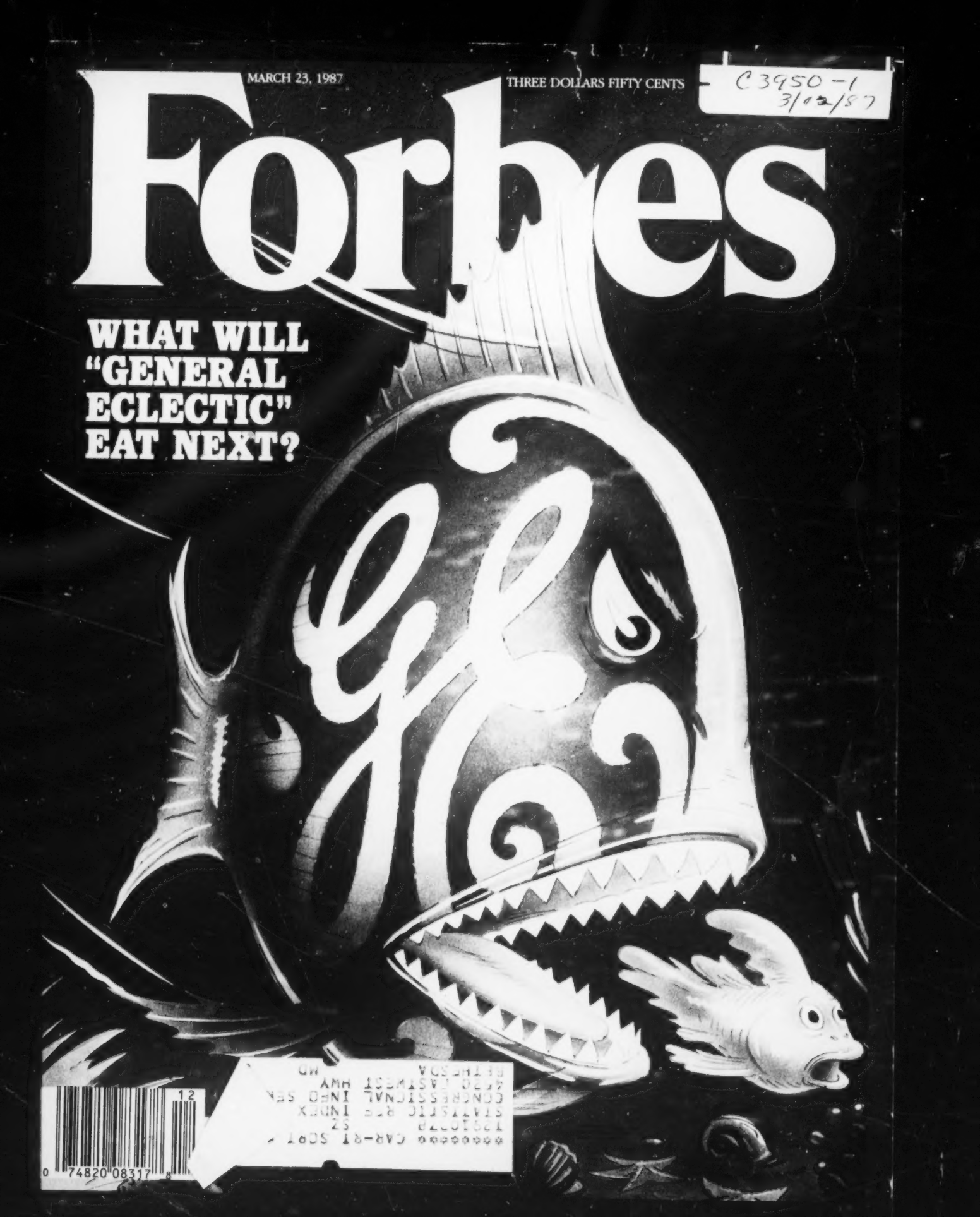
WHAT WILL "GENERAL ECLECTIC" EAT NEXT?



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MARCH 23, 1987
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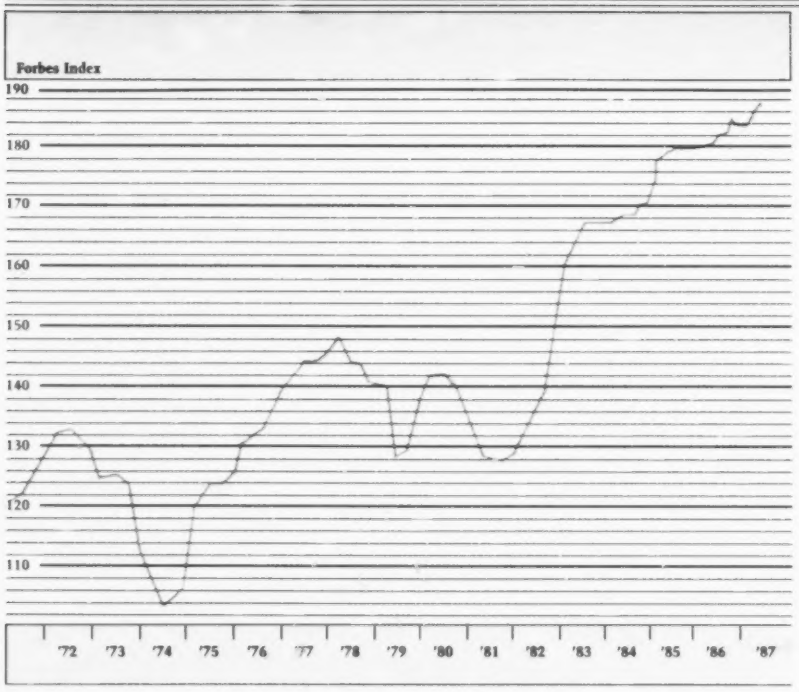
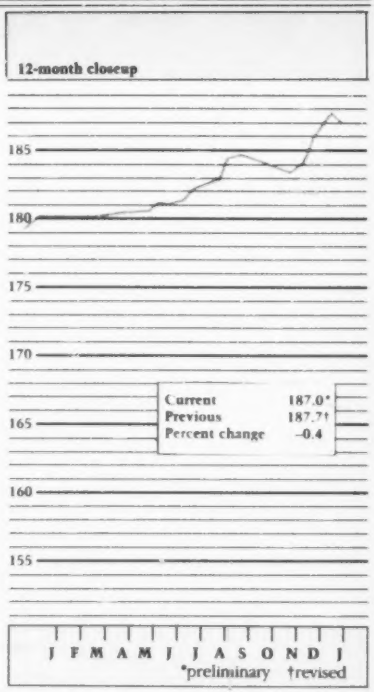
The Forbes Index





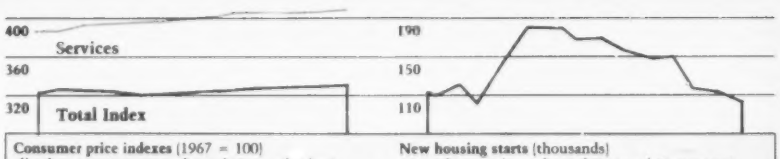
Cheaper money isn't helping. Despite mortgage rates at the lowest level of the decade, new housing starts dropped 7.8% from December to January. Also, following a robust December, retail sales fell 5.8%, to $119.3 billion, in January. A big downswing in auto sales was to blame here. These two components helped bring down The Forbes Index by 0.4%.

Personal income rose 0.5% in January, to $2,127 billion, but failed to keep pace with inflation. The Consumer Price Index increased 0.6% (before seasonal adjustment) in January, the sharpest monthly gain in three years. A weaker dollar has helped industrial production, which went up 0.4% in January, but it has reduced consumers' purchasing power by making imports more expensive.

The Forbes Index Components

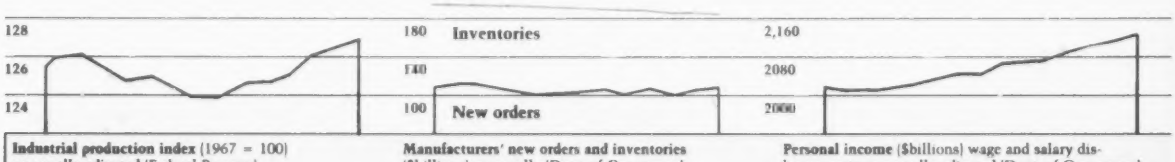
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)

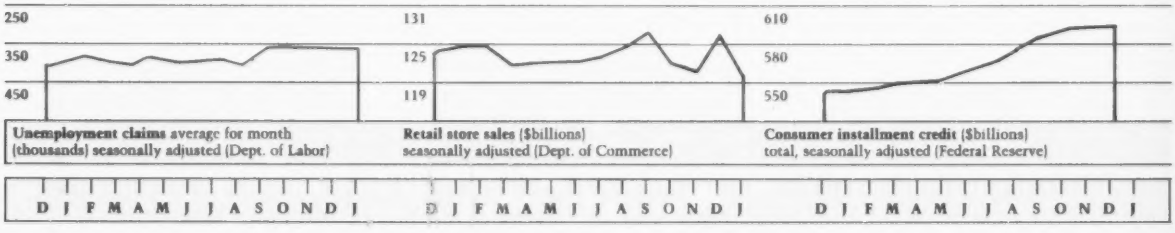
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)

Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)

Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



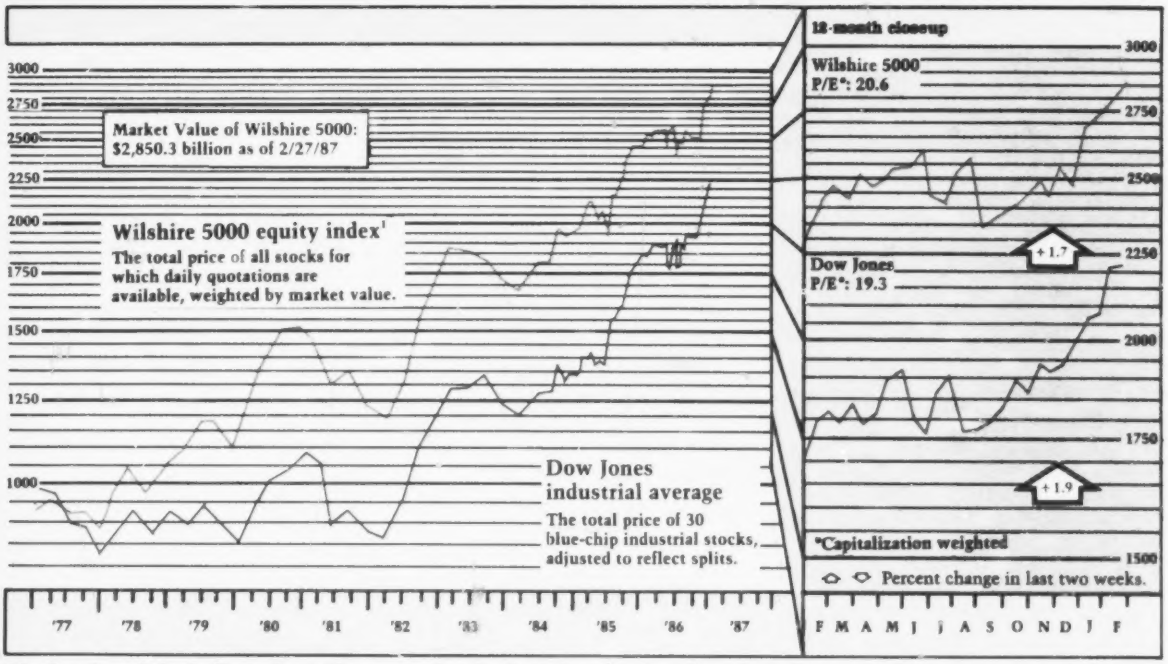
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)

Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



The last leg of the bull market? The upward trek of stock prices for 31 months has brought the Wilshire index of nearly 6,000 securities to a multiple of 20.6 times latest 12-month earnings. With small investors moving into the market, the secondary stocks that the institutions passed over are posting gains. After months of chasing the Dow and the NYSE, the Amex and Nasdaq finished the recent two-week period at record highs.

The other major indicators faltered somewhat in the final trading days, but over the two-week period the 30 Dow industrials rose 1.9%, the NYSE 1.5%, the Amex 1.7% and the Nasdaq 3%. The investor yardsticks, below, show a sharp increase in speculative activity. Over the last four weeks investors threw their money at smaller, more volatile stocks. High-growth stocks outperformed low-growth stocks by a nearly 4-to-1 margin, for example, and high-volatility shares gained nearly three times as much as low-volatility shares.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	4.5	3.5	3.1	3.8	7.1	8.4
in last 52 weeks	22.7	19.3	30.1	23.9	25.0	18.2

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	4.9	9.6	12.6	4.3	8.5	6.3	1.3	11.8	13.1	3.4	4.8	9.6
in last 52 weeks	25.6	42.8	58.3	27.1	22.1	22.8	16.4	43.7	56.6	24.9	26.9	29.7

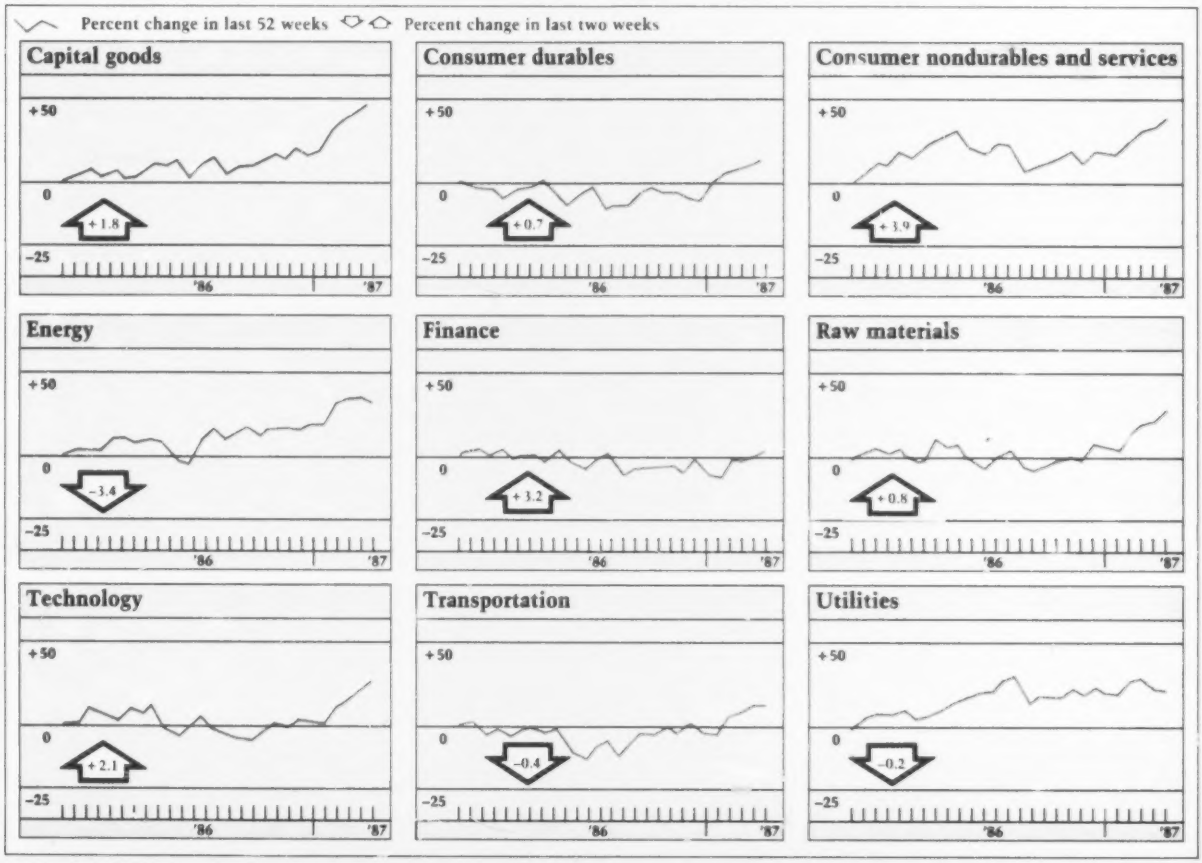
[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 2/27/87. Prepared by Wilshire Associates, Santa Monica, Calif.

Gus French

Where The Action Is

Financial problems. For the last two weeks the finance sector posted the second-best gain, a 3.2% increase. Finance stocks have doubled since mid-July 1984. Only consumer nondurables, with a gain of nearly 118%, fared better over the past 31 months. A closer look, however, reveals that the finance group has been coasting this year on its earlier performance. Since the start of the year finance shares appreciated 13.2%, vs. 15.9% for the Wilshire index. Only two sectors, utilities and energy, show smaller 1987 gains. Finance stocks also have the worst 52-week record: The group is only 7.8% higher than it was one year ago. Note, too, that finance shares sell at a relatively low multiple of 9.8 times estimated 1987 earnings. Even utility stocks are higher on that score.



What The Analysts Think

Few bargains here. The Forbes Sales 500 are priced at 13.5 times estimated 1987 earnings. Three of the subgroups—finance, utilities and consumer durables—are cheaper. But at the expensive end of the spectrum, consumer nondurables and capital goods have estimated 1987 P/Es of 17.1. That doesn't leave room for unpleasant surprises.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.59	18.8
1987 estimates	3.60	13.5
1988 estimates	4.41	11.6

Rank based on change in estimate	Sector	Estimated 1987 EPS	Estimated 1987 P/E	% change in 1987 estimate in 2 weeks	% change in 1987 estimate in 4 weeks
1	Consumer nondurables	$2.42	17.1	0.08%	0.40%
2	Raw materials	2.35	16.0	-0.28	0.04
3	Utilities	2.95	10.1	-0.30	-0.51
4	Consumer durables	3.51	13.4	-0.41	-0.94
5	Finance	3.69	9.8	-0.53	-1.01
6	Capital goods	2.52	17.1	-0.91	-1.17
7	Technology	2.76	16.0	-1.12	-2.36
8	Energy	2.34	16.3	-1.23	-1.14
9	Transportation	2.49	13.7	-1.40	-1.43

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 2/27/87. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.